A Short-Sighted Vision for Global Britain

Owen Barder, Hannah Timmis, and Arthur Baker

There has been a resurgence in calls to reconsider the cross-party consensus in the UK on foreign aid and development. The main political parties are all committed to spending 0.7 percent of gross national income on aid, to using the internationally agreed definition of aid, and to maintaining a separate government department to administer the majority of this aid, led by a Cabinet Minister. In their recent report, *Global Britain: A Twenty-first Century Vision*, Bob Seely MP and James Rogers lay challenge to these long-established pillars of UK development policy. In this note, we consider some of the questions they raise and suggest alternative answers.

1. SHOULD DFID BE ROLLED INTO THE FCO?

Seely and Rogers argue that DFID should be amalgamated with the Foreign and Commonwealth Office (FCO) and its secretary of state relegated to a non-Cabinet minister. A merger, they claim, would restore the FCO as the "undisputed intellectual driver of global engagement" and integrate the various components of UK foreign policy more effectively. We agree that effective foreign policy requires joining up all the government's instruments and levers, including aid, trade, security, migration, environmental protection and international governance. However, there are many other ways to improve coordination across government. As our colleague Ian Mitchell has argued, subsuming DFID into the FCO would likely reduce Britain's influence and reduce aid effectiveness.

There are many ways that government departments can coordinate without the need for mergers. Indeed coordination is already the norm. The International Development Secretary pointed out that DFID staff sit in DIT, the FCO, and the Cabinet Office. DFID jointly manages cross-government funds with several departments. These funds blend ODA and non-ODA to achieve both developmental and national interest goals. DFID also supports other departments on grant-making and results management. There are many ways coordination could be improved, for instance by broadening the "fusion doctrine." There are other departmental arrangements which might encourage even more coordination. Many countries have a ministry for development *policy* which collaborates closely with other departments, and a separate executing agency.

DFID has a global reputation as a development leader and is often considered a benchmark for other donors. This adds to Britain's soft power. Partly, this because DFID is independent and poverty focussed. This means DFID, and by extension the UK is seen to "play with a straight bat," and be trustworthy. Trying to squeeze more international influence out of DFID by subsuming it into the FCO would risk killing the goose that laid the golden egg. Of course, Britain retains the ability to use aid as a foreign policy tool. The decision of whether to channel aid through government systems can hinge on whether the government fulfills international norms, and this can be a real incentive. However, the incentive will be weakened if UK aid's poverty focus, and therefore its benefit to recipients, is reduced.

The prime minister, development secretary, and the report all agree that reducing poverty overseas is good for British interests. But the limited evidence available suggests that some of Seely & Rogers' proposals for organising Whitehall would make spending less effective. A study by the Overseas Development Institute (ODI) comparing institutional models for development assistance was inconclusive about which was most effective, but found that countries without Cabinet-level development ministers perform less well on several indicators of aid quality.

This should not be entirely surprising. Diplomacy and development cooperation have fundamentally different foreign policy objectives and different business needs. Diplomatic systems are built for rapid intelligence gathering and deal-making, and are run by generalist civil servants with strong evidence-synthesis and communication skills. Development agencies are primarily designed for commissioning or delivering projects, which increasingly involves high volumes of discretionary spending, risky and complex interventions lasting several years, and substantial external scrutiny. Combining diplomatic and development functions without due regard to the different inputs each requires risks undermining foreign policy effectiveness. For example, a five-year ex-post review of AusAid's integration into the Australian Department of foreign Affairs found that the merger resulted in a "pronounced deterioration in skills and systems for preparing and managing bilateral activities." This would seem to demonstrate the value of retaining a specialist department for UK development policy.

2. SHOULD WE USE AID MONEY TO INCREASE THE FCO AND MOD'S CAPACITY?

The report argues that the FCO is in "decline", not just because it has lost responsibilities, but because it has insufficient funding. To "protect the UK's values and interests", according to the report, the FCO and the MOD both need more funding, and this could be achieved by channeling more aid spending through them.

It's true that the Foreign Office has faced cuts for its core activities. The FCO's core spending[1] has been cut by a third since 2009/10.[2] However, if the FCO and MOD need more funding to fulfill their core functions, channeling aid money through the FCO and MOD is a highly inefficient solution. At best, this would enable them to recover some funding by capturing some of the administrative costs of aid projects. This would add unnecessary aims and constraints to activities, and therefore be likely to reduce efficiency. It would also make aid less effective, as the report itself concedes that DFID spends aid more effectively than other departments.

A much better solution would be to give the FCO the funding it needs and to let DFID continue to deliver most aid spending. Funding the FCO without cutting DFID spending is fiscally realistic. This year, the FCO's core expenditure is £1bn, only 0.1 percent of public spending. For context, last year the chancelor found £12bn 'down the back of the sofa'; an updated forecast meant he had £12bn more than he expected. He could have reversed this cut to the FCO's core spending with only 5 percent of that windfall. Alternatively, it could be paid for by reducing the UK's harmful and inefficient agricultural subsidies after Brexit rather than maintaining them. Last year these subsidies were worth three times the FCO's spending.

1 Provisions for administration and programme expenditure, excluding grants, subscriptions, and funding to cross government funds.

2 Figures from Central Government Supply Estimates 2010-11 and 2018-19.

3. SHOULD THE UK ONLY KEEP THE 0.7 PERCENT TARGET IF IT CAN DEFINE AID "AS IT SEES FIT"?

The report suggests that the UK should only keep it's target to spend 0.7 percent of GNI on aid if it can define aid "as it sees fit," rather than using the internationally-agreed OECD definition of aid. This would allow the UK to re-allocate overseas spending away from economic development and towards other strategic aims (e.g., "hard power capability"), while still counting this spend as aid.

Whether or not you think more military spending than now should count as aid, there are strong reasons for maintaining a shared definition of ODA, and sticking to a shared target. Because a more prosperous, peaceful and equal world benefits everyone, no matter who pays for it, there is an incentive for donors to under-invest or "free-ride" on the contributions of others. A common target and definition of ODA prevents collective underspend on international development by providing a mechanism to hold countries to account. This benefits everyone, including the UK, whose relatively generous aid programme would otherwise encourage free-riding. The UK, as a leading member of the OECD, can influence the common definition of ODA. In 2016, after lobbying from the UK, the DAC increased the amount of peacekeeping spending that can be counted as ODA. Of course, countries are free to fund other causes that they perceive to be valuable, such as peace-keeping or disaster relief in overseas territories.

We have a similar system for defence spending and for similar reasons. Because NATO has "collective defence" written into Article 5 of its constitution, whereby an attack against one ally is considered as an attack against all allies, there is an incentive for members to "free-ride" on others' defence expenditure. To guard against this, NATO has an agreed definition of defence spending and members agree allocate 2 percent of their GDP to expenditure that meets this definition. Britain meets this commitment, while some other members don't. This does not mean that Britain should cut its defense spending. Nor does anyone sensible think it would be a good idea for each country to define defence spending as they see fit.

The UK is viewed as an international leader and a custodian of the international system. We are the only country to meet both the aid and defense spending targets (in 2018 five OECD countries meet the aid target and five NATO countries meet the defence spending target). Since we increased our spending to meet the target, others have increased theirs. France and Germany both significantly increased their spending, and Germany met the target in 2018. If we abandon the target and definition, others are likely to follow suit. The result would be less expenditure on international development and ultimately a less prosperous and peaceful world.

Walking away from the internationally-agreed definitions or targets would put this reputation at risk. Indeed a report based on 40 interviews with current and former diplomats suggested that our commitment to 0.7 percent demonstrates "evidence of real intent to be a global power," and that without it the UK's reputation would suffer.

4. DOES THE 0.7 PERCENT COMMITMENT REDUCE AID EFFECTIVENESS?

The UK spends 0.7 percent of GNI on aid each calendar year. There are two main criticisms of the spending target's impact on aid effectiveness. Firstly that it's time-bound, so DFID has to rush money out the door each year to hit it exactly, and secondly that there simply aren't enough good development projects to reach it. Seely and Rogers argue that stories of unsuccessful aid expenditure are "linked to DFID's need to hit the lawful spending target, rather than spending effectively."

We don't agree that meeting the target causes poor spending. DFID has a well-honed process for adjusting the timing of payments (e.g., to international institutions) from one calendar year to another to hit the target precisely each year, without having to make any substantive changes to its spending programmes. This removes the incentive to "shovel money out the door." The National Audit Office examined this issue thoroughly. They found that although shortly after the target was met there were some issues with DFID's pipeline, these have now been addressed. They did not find that the target reduces aid effectiveness.

Moreover, there are more than enough opportunities to spend aid money well. We know of extremely cost effective ways of preventing child deaths from disease (here and here), of getting kids in school and making sure they learn, and of increasing the incomes of very poor people by helping them get better jobs. And yet children still live in poverty, remain uneducated, and die from preventable diseases. We do not spend nearly enough on these programmes for diminishing returns to set in. The report is right that aid has small impacts compared to the strides made by the meteoric economic growth of countries like China and India, but that doesn't mean we shouldn't do our bit. Aid can also help these countries make their own policies more effective, amplifying the effect of growth.

Of course, some DFID projects are unsuccessful as well. All large organizations, especially innovative ones tackling intransigent issues, have some failed ventures that don't work. Any good capitalist will tell you that if every project in a portfolio worked, it would be an indication that it is not taking enough risk. In development, the successes of successful programmes are so great that they more than compensate the losses from failed ones.

5. DOES DFID SPEND TOO BIG?

The report argues that DFID would be more cost-effective if it gave fewer large grants to NGOs, and instead delivered more small programmes itself. It's true that DFID tends to contract out delivery of projects, while some other aid agencies are more "hands-on." We don't have a strong view on whether this should change. However, it's not true that smaller projects tend to be better value for money. Since the report does not give any evidence for this claim, it's hard to engage with. Analysis by the International Rescue Committee found that, "The biggest single factor driving cost efficiency is the scale at which programs are run." In fact, they found a strong relationship between scale and cost-effectiveness in every programme they examined: latrine building, treatment for malnutrition, teacher training, child protection, and more.

To increase cost effectiveness, most aid should be spent on proven interventions implemented at scale. One good way to do this is to spend via multilateral institutions, such as the World Bank and the European Union, which are able to pool resources and generate economies of scale. The main exception for this rule is that new or unproven interventions should be tested at small scale before being rolled out.

6. HOW SHOULD THE UK PROMOTE FREE TRADE AFTER BREXIT?

Seely and Rogers' "Global Britain" would be a champion of free trade and the World Trade Organisation. We support this vision: trade is an important means to prosperity, not only for the UK, but also for developing countries. However, the report's main recommendation—to use the royal navy to extend and protect shipping lanes—would not address today's most critical and rising barriers to trade. These include increasing tariffs, declining national treatment, lacklustre global investment, slow progress on services liberalisation and the repatriation of supply chains.

Our colleagues have identified four policies that would establish the UK as a global leader in promoting free and inclusive trade post-Brexit. These are 1) eliminating or lowering tariffs, 2) improving preferential access for the poorest countries, 3) cutting red tape at the border, and 4) enhancing the effectiveness of UK aid for trade. These policies are win-win opportunities that would benefit British consumers and businesses by driving productivity improvements in the UK market, while also supporting poor countries to reap the rewards of globalisation.

To conclude, the report's vision for global Britain is not credible. It fails to address arguably the biggest challenge facing the world (climate change), and its proposals on development are self-defeating. There is a broad consensus that helping to reduce poverty and create a more prosperous world is in the UK's long term strategic interest. The UK is a development superpower. We gain international respect for having poverty-focused, independent development policy. Attempting to gain more short-term benefits by redirecting our overseas spending risks killing the goose that laid the golden egg.

Center for Global Development

Ideas to Action: Independent research for global prosperity

WWW.CGDEV.ORG

OWEN BARDER is vice president, director of CGD Europe, and senior fellow at the Center for Global Development.

HANNAH TIMMIS is a research assistant in the Europe office of the Center for Global Development.

ARTHUR BAKER is a research assistant in the Europe office of the Center for Global Development.